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**Economic Conditions  
Governmental Finance  
United States Securities**

New York, March, 1921.

**General Business Conditions.**

**T**HE general business situation has changed but little during the past month. In the Middle-West the movement of grain to market has continued at a moderate rate, and prices have been stronger. Receipts of cattle at the principal markets have been comparatively light, which has helped to sustain prices and they have recovered slightly. Hogs show little change. Cotton has been weak and at the close of the month was lower than at any time since 1915, when it was recovering from the great slump that followed the big crop of 1914 and the outbreak of the war. The March delivery in New York has touched 11.50, which compares with 40 cents a pound one year ago. Foreign markets are very much depressed, with Liverpool below New York. Naturally the cotton-growing section is not cheerful.

The industrial situation is mixed, the news from day to day telling of works that are closing and works that are starting up, the one class of reports apparently about balancing the other. The amount of unemployment unquestionably is very large, but the amount of distress reported is comparatively small, indicating that the wage-earners had laid by something in the day of good earnings. The volume of retail trade in the industrial cities supports this view, but trade in the rural districts is light, bank clearings are down 25 to 30 per cent from a year ago, which, however, is not very bad considering the lower prices. Railroad tonnage is off about 20 per cent from the high point in October. The number of idle cars approaches 400,000. The movement of coal, grain, oil, lumber and all the chief commodities is light. The export business in coal to Europe is dead for the time being at least, and the domestic coal trade is flat, with a good many mines on part time and keen competition among sellers.

The general trend of commodity prices has been downward and trade has continued on a hand-to-mouth basis. The shoe industry has been showing some life in specialties, but the staple lines are still very slack. Leather is practically unchanged, with tanneries operat-

ing at about 25 per cent of capacity. Calfskins are said to have dropped from \$1 in August, 1919, to 14 cents. All the leather companies suffered great losses last year. Hides have weakened since January 1st under pressure in some quarters to make sales and with nobody wanting to buy. Prices made under such conditions are merely nominal and hardly can be said to constitute a market.

Wool has been a little more active, under increased operations by woolen mills, and perhaps aided by the pending tariff bill, although stocks in this country are so large that importations will not be needed very soon. Crude oil has declined rapidly since the first of the year and is down about 50 per cent. All of the metals are at the lowest level yet touched. Sugar has recovered about a cent and one-quarter per pound under the influence of an arrangement in Cuba to market the crop through a selling committee representing planters, bankers and the Cuban government. The automobile industry is showing some revival. Wage reductions are numerous and generally accepted as necessary. Building permits in 142 cities in January, as reported to Bradstreet's, aggregated \$56,035,925, against \$120,003,182 in January of last year.

Reports by cable to this Bank from its foreign branches and agencies indicate practically no change in conditions during the past month. In Europe there is much anxiety over the settlement of the question of reparations.

**The Textile Trades.**

The cotton goods trades have had a fair amount of small business, but have not sustained the expectations that were raised soon after the first of the year, when they started off with a rush. Print cloths, sheetings, drills, etc., have lost all the gains they made then, and perhaps a little besides. The weakness in raw cotton has been a factor in the decline of goods, and on the other hand the light demand for goods has been the fundamental cause of the weakness of cotton. The latter, however, is affected not only by the situation in this country but in foreign countries. The British

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markets are lifeless, due to the absence of demand from the continent, Asia, and elsewhere. The consumption of cotton during January by the mills of the United States was 366,270 bales, which compares with 294,851 bales in December and 591,921 bales in January, 1920, a decline of 38 per cent from a year ago. This probably about represents the present state of activity in the various branches of the cotton goods industry.

The most notable event in woolen goods in a long time was the opening of Fall lines of dress goods, cloakings and overcoatings by the American Woolen Company, on the 21st ult. Much interest was shown, and the prices, which were down 40 to 50 per cent from the top of last year, seem to have met the expectations of the trade and induced rather free buying. A strong bid for business was made by the offer of a guaranty against price declines up to September 1. The feeling seems to be that this policy and the manner in which it has been received has given a much-desired degree of stability in the woolen trade.

The silk trade has been much encouraged by the general interest shown in the silk exhibition held in this city during the week ended February 12, which was attended by many buyers and developed an important amount of business. The demand for silk goods has broadened and the mills are increasing production. The raw silk situation in Japan seems to be well in hand under control of the syndicate organized to stabilize it.

#### **Agricultural Conditions.**

The winter wheat crop is reported looking well everywhere, and the price of wheat is so much better than that of nearly every other farm product that it begins to look like the farmer's best hope.

The total exports of wheat and flour reckoned as wheat from the United States and Canada from July 1 to February 24, are reported by Bradstreet's at 303,183,559 bushels.

Only four months remain of the crop year. The price of wheat at Chicago has been ranging from about \$1.60 to \$1.70 per bushel for the March delivery, with premiums for spot and a discount of about 10 cents per bushel for May. The discount on futures has prevailed throughout the crop year showing the skepticism of buyers toward the theory that a shortage would develop before the next harvest.

Argentina and Australia are now the chief sources of supply for the importing countries, and their supplies appear to be ample for all demands. This country is thought to have sold about all it has to spare, and the movement to put an import duty on wheat has stimulated the movement from Canada to this country, to provide against possible needs. The world's carry-over will not be large, and as

it is now quite improbable that Russia will contribute anything to the next year's supply for western Europe, and as the Argentine and Australian crops this year were much above the average of those countries, the outlook for the price of wheat from the 1921 crop would seem to be very good. Moreover, it will be produced at lower cost.

#### **The Cotton Outlook.**

The cotton-planting season is near at hand, and it will soon develop whether there is to be decisive curtailment of the acreage. The indications are that this time the campaign for that purpose will be more successful than heretofore. The bankers and business men of the south are lending aid to the movement in the belief that the prospect for cotton consumption over the world does not warrant the production of another full crop at this time. There is a very substantial basis for this view. The carry-over of world stocks at the end of the present crop year is likely to exceed one-half the amount of last year's crop. It is an abnormal accumulation, and with consumption the world over abnormally light, it requires a great deal of optimism to buy cotton even at the present price, assuming that another average crop is to be grown this season. The banks of the South have loaned a great deal of money to the cotton growers, which cannot be paid with the proceeds of cotton now on hand, and they are not disposed to advance money to promote the production of another full crop, which might depreciate still more the value of the stock now carried.

The cotton growers are not in funds to conduct farming operations this year in any but the simplest manner. Operations will be curtailed, fertilizers will be bought very sparingly, and the farmers will aim to grow foodstuffs for themselves and farm animals, instead of buying such supplies, as in the past. It seems very probable therefore that a substantial curtailment will be accomplished.

#### **Foodstuffs Cheap at Wholesale.**

All foodstuffs are selling at wholesale at prices very greatly reduced from those of a year ago. This is true of the vegetables, especially potatoes, which are practically at pre-war prices. Sugar, coffee, tea, apples, canned goods, etc., are in the same category. Butter and eggs have had a great decline in recent weeks. If everything else was down to correspond with wholesale prices of food the crisis would soon be over. Unfortunately, that is not the case, although the decline in food affords a basis for reductions in everything.

The increased freight charges bear heavily upon shipments of vegetables and fruits over long distances for the winter markets. This

is a business which has had great development since the improvement of transportation facilities. A generation or so ago the people had fruits and vegetables of local production in their season. Some idea of the present movement may be had from the following statement by the New York State Division of Foods and Markets of receipts at New York City during the week ended February 12:

- 30 carloads of celery, California & Florida
- 41 carloads of mixed vegetables, La., Fla., Cal. and 15,000 bushels of mixed vegetables from Bermuda and Cuba.
- 3 carloads of peas, California.
- 107 carloads of lettuce, California, Florida & Texas
- 18 carloads of tomatoes, Florida & Bahama Islands
- 18 carloads of pears, New York & California
- 47 carloads of sweet potatoes, N. J., Del., Md., & Va.
- 9 carloads of string beans, Florida.
- 56 carloads of cauliflower, California
- 5 carloads of turnips, Canada
- 3 carloads of strawberries, Florida
- 27 carloads of spinach, Texas
- 23 carloads of lemons, California
- 268 carloads of oranges, Florida, California
- 58 carloads of grape fruit, Florida
- 10 carloads of tangerines, Florida
- 7 carloads of peppers, Florida
- 5 carloads of eggplant, Florida
- 3 carloads of Romaine, Florida
- 41 carloads of kale, Virginia
- 5 carloads of beets (bunched), California & Florida
- 20 carloads of carrots, New York
- 43 carloads of cabbage, Florida, New York & South Carolina
- 205 carloads and 2119 bbls. Bermuda potatoes
- 82 carloads of onions, New York, Ind., Ohio, Mass.
- 257 carloads of apples, New York, Wash., Ore.

#### The accompanying market report says:

Wholesale prices for fruits and vegetables have gone down so low in the New York market in the last few weeks that many farmers who shipped produce here have received nothing in return but a bill for the balance of the freight. Not only have prices declined to the point where the farmer is getting little or nothing for what he produced after transportation charges are paid but even at the low wholesale prices the demand is very light.

A few examples will illustrate what the present market conditions mean to them. A grower at Sanford, Florida, shipped a carload of 400 crates of lettuce which sold here for \$339.48. The freight alone amounted to \$339.75, the icing charges \$77.50, war tax \$12.52, cartage \$27.93 and commission to the receiver here \$33.95. When the total expenses of \$491.65 were paid, the farmer got a bill for \$152.17 due the commission men.

A grower at Laredo, Texas, sent a carload of 756 bushel baskets of spinach to New York, which brought only \$467.35 on the market. The freight charges alone were \$627.47 and the total expenses amounted to \$720.66. Another carload of spinach from Austin, Texas, sold for \$262.99 less than the freight and cartage charges. Another carload of 920 baskets of spinach from Derby, Texas, sold at \$1.00 a bushel and after transportation charges were paid brought the grower only \$134.63 for the whole carload. Another carload from Bay City, Texas, brought the farmer nothing but a bill for \$143.16 to pay the balance of the transportation and commission charges.

California growers are also hard hit by the new freight rates and low prices. For example, a shipment of 172 crates of celery that came in this week from Knightstar, California, brought only \$559.00. The transportation charges amounted to \$626.66, which added to the commission charges of 7 per cent made the total shipping expense \$665.79. Another carload of celery from Walnut Grove, California, brought the grower a net proceed of only \$55.27 for 164 crates, the freight charges alone amounting to \$609.83.

It is not only the growers in distant states that are suffering big losses from the drop in prices for farm products and the high freight rates. Dozens of New

York State farmers have shipped carloads of cabbage, onions, potatoes, apples, carrots and celery to the market in the last few days only to receive net returns so small as to pay little more than the cost of the containers.

#### Iron and Steel.

The iron and steel industry has not reached a stable position. The United States Steel Corporation has made no move to meet the price cuts of its competitors, but its order book is being depleted and some of its subsidiaries are curtailing operations. Judge Gary has expressed the opinion that wage-earners should not be asked to take reductions greater than current reductions in the cost of living, and that price reductions would not create business at the present time. There are obvious reasons why the Corporation would not wish to be first in reducing wages or to inaugurate either wage or price reductions while it has a fairly good order book. Moreover, it must be remembered that since the Spring of 1919 the Corporation has maintained a price list much below the level of the outside market. The officials of the Steel Corporation, however, are as well aware as anybody that a general reduction of costs is imperative throughout all industry and that lower prices for iron and steel are necessary to that end. The independents have inaugurated wage reductions without any serious trouble with labor and are taking the new business at prices reported at \$5 per ton or more below the Corporation's list. The amount of business going is not large, for the trade probably is not in immediate need and disposed to await further developments. Nobody thinks bottom prices have been named. Pig iron is down 25 per cent or more, around \$27 and \$28 per ton.

One reason given against price reductions in iron and steel is that freight charges on materials and products are very high, a complaint common among the industries, and another is that labor, even where reductions have taken place, is still much over 100 per cent above pre-war rates. Of course the railroads respond by saying that given cheaper iron, steel and labor and they will be glad to accept lower freight rates.

#### The Railroad Situation.

The railroad situation is involved in a maze of complications almost as desperate as the state of international relations. There are so many powers to be consulted, so much speech-making to be done, so much antagonism to be overcome, and such a division of authority that the proceedings are interminable. The railroad companies are trying to get into position where they will be able to exercise some effective authority in the operation of their lines. Their charges are fixed by the Interstate Commerce Commission and wage rates

are fixed by the new railroad board. The new scale of charges was designed to provide net earnings of approximately  $5\frac{1}{2}$  or 6 per cent upon the value of railroad property, but a great many of the roads are not making operating expenses, and the public is protesting that the rates are greater than the business of the country can bear.

It would seem to be clear that operating costs must be reduced and the railroad officials have been exerting themselves to that end. They have cut down the number of employees by 289,000 since September, 1920, but cannot touch wages without the approval of the railroad board. They are trying to get away from the system of unified rules and wage rates covering the whole country, which is a legacy of governmental administration, so that each company may deal direct with its own employees. Without ability to do this, the officials of the individual roads feel that they have little to do in the management of operations. They want to get back to piece-work wherever that is practicable, and as illustrating what they say upon that point, one railroad president states that the efficiency of the shops has fallen off one-third, and that not only will this involve a corresponding increase of the force to do the work, but that if his company is to do the work in its own shops it will have to add about 50 per cent to the capital investment.

The Erie road undertook to put into force a reduction of wages for common labor, to bring it into line with wages paid in other industries along its line, but the railroad board intervened and prevented it from going into effect.

The executives of the leading roads have not as yet submitted any request for wage reductions applying to the four brotherhoods of trainmen. They have disclaimed the purpose of doing so at present, as they wish to concentrate first upon the effort to accomplish economies by increased efficiency. The issue has been raised, however, by one of the smaller roads, which claims that it is not earning operating expenses and cannot bring its expenses within the required limits without reducing wages. The answer of the Brotherhoods is that wages are not related to finances, and that its problem should be laid before the Interstate Commerce Commission (presumably for authority to make another raise of rates) instead of to the wage board. A decision upon this case has not been given, but meanwhile the road has gone into the hands of a receiver.

A few facts stand out clearly in the railroad controversy. In the first place the railroad business must be made self-supporting; the traffic should pay charges sufficient to meet operating expenses and sustain railroad credit. In the second place, charges have gone as high as they should; the increases that have been

made have not only borne heavily upon some industries, but have actually curtailed traffic, thus necessitating additional increases upon the remaining traffic. The effect of successive increases will be to localize traffic, materially reducing the volume, raising the cost and changing the location of industries. The farms located at a distance from market have been seriously affected already; the first effect falls upon them, but if production is affected it falls back upon consumers and upon the railroads. Naturally, the number of railroad employees will be affected, and employment in all the industries will be affected. It will be a process of strangulation. The action of the Railroad Wage Board is awaited with great concern.

### The Equilibrium in Industry.

No comprehensive view of the present industrial situation and of contending interests can be had without referring constantly to the fundamental principles according to which men distribute themselves in the various occupations and exchange products and services with each other. There is a Law of Equilibrium which works out a natural balance between the occupations. That balance must be sustained in order that the products or services of each group may be absorbed by all the other groups. When the balance is lost, unemployment results and continues until a redistribution is worked out, so that again everybody is at work and all the products are absorbed, a state which we call prosperity.

It is rather a blind process—this finding the equilibrium, because there is no supreme authority to tell each person where he shall go, and what he shall do, and how much he shall receive. It is up to each person to find the place where he can be useful and at the same time best satisfy his own choice of work. That is the state of society under a regime of individual liberty. They are trying to do it the other way in Russia, where the Government takes it upon itself to say where each person shall go, and what he shall do, and what he shall receive. Those who think they would like this way will do well to watch for the reports from Russia, or better still go there and get the information at first hand.

It is clear that the secret of prosperity is in balanced industry, with the production of every branch of industry in proportion to the wants and buying power of the people in all the other occupations.

The number of people who can be employed in any industry depends upon the amount of the products that can be sold, and that depends upon the price which the consumers have to pay for them. If the price of a given commodity is increased the consumers will have to curtail their purchases of it or of something

else; perhaps they will distribute the curtailment, but curtailment there will be, whenever by either a rise or fall of important classes of commodities the parity of values throughout the industries is seriously disturbed.

For any commodity there is at any given time a certain price which will secure a larger net result to the producers than any other price. That is to say, if the price be lowered the additional distribution will not compensate for the sacrifice, and on the other hand, if it be raised the loss of distribution will exceed the gain in price. Everything that is offered for sale, whether it be an article of goods or the services of an individual is in competition, not only with like goods or services, but with all the multitude of attractions that are appealing to every consumer. Under these conditions it is folly on the part of an individual or group of individuals to think that he or they have it in their power to arbitrarily fix wages and prices for themselves. They may have the power to fix, and even maintain, wage-rates and prices, but they cannot escape the effect their action will have upon employment or upon sales.

#### **The Great Miscalculation.**

This is where occurs the great miscalculation which is tying up trade and industry at this time. Something has happened that has affected the buying power of millions of people, and other millions are trying to ignore it and think they can go on selling their own goods or services at the same rates as before. Trade is dull and millions of people are out of work because the adjustments that are necessary to restore the equilibrium are not made.

Merchants refuse to reduce the prices of goods they have in stock, and perhaps argue plausibly in justification of their policy, but trade languishes and quicker-witted competitors will replace their high-cost goods with low-cost ones and take the lead in the trade.

Wage-earners stand for the maintenance of wage-scales, and as the public is unable to buy goods made upon that level of costs, mills close down or run on half time, with a great loss of wages without corresponding reductions in the price of the product to consumers, most of whom are wage-earners.

The printers of New York City wanted more wages last fall, and a committee of well-intentioned gentlemen selected to arbitrate the case, awarded an increase by some process of reasoning which left the state of the printing business and the equilibrium between the printing business and the general business situation entirely out of the account. The result was that the wage increase, by increasing the cost of printing at a time when the public had less money to spend for printing, aggravated the

situation, and resulted in a reduction of employment and of actual wage payments.

That illustrates the whole situation. It is short-sighted to be always thinking that wages can be fixed by simply an agreement between employer and employees. There is a relationship between each industry and all the other industries which must be taken into the account.

#### **Another Illustration.**

Here is another illustration, which shows a larger view of conditions than that taken in the printers' case. The following is a news dispatch:

UTICA, N. Y., Feb. 18.—The board of directors of the Dairymen's League, Inc., in session here to-day, recommended to all league members to sell league milk during March on a basis of \$2.10 per hundred pounds for milk testing 3 per cent butter fat in the 200-210 mile freight zone.

This will result in a decline of a trifle over one cent a quart as compared with the prices current during this month. The producers will receive .0503 a quart for milk testing 3.6 per cent butter fat.

The board considered market conditions, which, it was said, are unfavorable to the producer, and set a price which, it is expected, will market a large part of the milk that ordinarily goes into the manufacture of milk products. Since October 1, 1920, condensed, evaporated and powdered milk plants have been closed, depriving the producer of a large source of distribution.

This organization of farmers was not moved by the competition of milk from outside; it undoubtedly controls the situation and may have the power to even raise the price, but it is wisely seeking to increase the consumption of milk. The members have milk to sell and they reason that the way to sell more of it is to put the price down and create a larger demand. In other words they are moving to bring the price into conformity with changed conditions and with the present purchasing power of the community. If all producers would adopt this purpose the industrial organization would be soon brought back into balance, with employment and lower living costs for all.

#### **What Is Radically Wrong?**

It is a common declaration in these days, uttered usually with an air of profundity, that there must be something radically wrong with society, that millions of people should be out of work, millions more unable to sell their products and millions suffering want. Since something is assumed to be radically wrong it presumably follows that something ought to be done about it, and the talkers generally are ready to do it, although the ideas of such people as to what should be done are exceedingly vague.

It is admitted that something is radically wrong. It is wrong that great numbers of people should be so ill-informed about economic affairs that instead of acting in a man-

ner calculated to secure cooperation and stability they use their influence to break down the delicately balanced industrial organization and create confusion and disorder. The modern industrial organization is dependent upon intelligent, voluntary, harmonious cooperation on the part of all the people. It requires that the people shall distribute themselves according to choice in the various industries, and so direct their individual policies as to keep the industries in balance and accomplish a ready exchange of products. If through mistaken ideas of self-interest they organize themselves into groups, either national groups, class groups, or occupational groups, and become so intent upon forwarding group interests that they lose sight of the necessity for general cooperation, the whole modern system of highly-developed industry will break down. It will be strangled by too much organization. There is indeed something radically wrong with society, and this is it.

### **Money and Banking.**

Very little change has taken place in the credit situation in the past month. In New York money on collateral for ninety days is from  $7\frac{1}{2}$  to 8 per cent; commercial paper about the same. Call money 6 to 7 per cent. Money is tight the country over, and while liquidation is going on in some lines, requirements elsewhere are increasing.

The Federal Reserve banks have continued to work into better positions, and inter-bank borrowing has come very nearly to an end. The western and southern banks have pressed rather energetically to accomplish this, with the result that a good many loans have been shifted to the eastern districts, making the progress of liquidation in the former localities appear greater than is actually the case.

Total earning assets of the twelve Reserve banks February 25 were \$2,854,135,000, showing a reduction of \$568,000,000 from the peak, which was touched on October 15, 1920. The total loans, discounts and investments of member banks reporting to the Federal Reserve Board on February 11, 1921, were \$16,118,019,000, as compared with \$16,828,278,000 on August 13, 1920, and \$16,654,394,000 on February 13, 1920.

The Federal reserve system has improved its reserve percentage notably, i. e., from 43 per cent on November 5 to 49.9 per cent on February 25, but this has been largely by gains of reserve holdings, amounting to \$183,261,000, of which \$130,979,000 was gold. The high point of the country's gold holdings was in July, 1919, just after the embargo upon exports, was removed. The stock stood then at \$3,095,077,467, from which there was a decline by ex-

portation to \$2,646,615,750 in May, 1920, and then a recovery by importations to \$2,872,525,066 at the close of January, 1921.

### **Slow Liquidation.**

It looks as though liquidation had gone about as far as it would go for the present, if allowance is made for some degree of normal expansion during the months of Spring, when farming operations begin and construction work usually assumes greater activity. Farmers will call for less credit this year than for some years past, for they will undertake to make this year's crop on very light expenditures. A large part of the 1920 crop is still in their hands and probably is ample to meet living expenses and the necessary outlays, but it is doubtful whether there will be much net liquidation from this time on until Fall. It has been apparent for some time that the great body of indebtedness at banks could not be paid from the proceeds of the last crop. It represents unpaid subscriptions to war bonds, farm improvements in part, investments of various kinds entered into under the stimulus of booming times, and liberal expenditures when everybody was spending liberally. In industrial sections the frozen credits that represent exports are a considerable factor in the volume of loans.

### **The History of War Inflation.**

Every period of credit expansion and rising prices has left a legacy of indebtedness to be worked off. Every war has had an aftermath of this kind, as the wars are not paid for and out of the reckoning until the bank credit created for financing them has been extinguished and eliminated from circulation. That cannot be accomplished forthwith. It can be accomplished only by gradually building up new capital to take the place of credit, or rather to restore the old relations between capital and credit.

Patience will have to be exercised while this is going on, for the creation of great sums of new wealth, such as were expended upon the war, is not an over-night process. The restriction of credit which the Federal Reserve authorities began rather tardily to call for about a year ago, and which has been misrepresented in some quarters as a contraction of credit, was necessary in order that the wild inflation which was threatening the whole credit structure might cease. In other words, it was necessary to stop increasing liabilities faster than assets.

It is impossible, however, to check the inflation of credit without some degree of deflation resulting, for the moment it is generally understood that a rising price movement has culminated an amount of selling is sure to

occur that will turn the price movement downward. Once this occurs there is no telling how far it will go. Thus it is that although a period of inflation in the nature of things cannot run on indefinitely, and if let alone is bound to end in a disastrous collapse, any effort to check it must assume the possibility of a period of depression. The sooner that risk is taken the better. It would have been better to have checked the increase of indebtedness which began in the summer of 1919, and it would have been calamitous to have had another year of expansion at the rate we were going in the winter of 1919-20. That, however, was impossible, because conditions abroad put the effective check upon expansion in this country.

#### **The Old, Old Story of Inflation and Collapse.**

Every period of rising prices continued over a period of years begets carelessness about incurring debts. The more deeply people go into debt in such a time the more money they make—while the movement continues. A new crop of rich men is created, of individuals who disregard all the sound rules of doing business. Margins are reduced to next to nothing, credit is strained to the limit, because as month after month passes this policy is found to pay. Why should a speculator in stocks carry 100 shares on an ample margin when he can carry 200 shares and double his profit, and that reasoning applies generally? Salesmen, superintendents and foremen who have saved up a little money on salaries start into business for themselves, and make money rapidly, turning their profits over and over and using them as the basis of more borrowing. Everybody is pyramiding, and the situation becomes highly artificial. It is evident now that the apparent scarcity of goods about a year ago, when manufacturers were scaling orders, was largely artificial, caused by a scramble among dealers. The whole business situation at such a time becomes infested with marginal traders who have an influence in putting prices up but lack resources to withstand falling prices. Their holdings are thrown on the market at a time when the market is ill-prepared to receive them. Men have been buying farms valued at \$50,000, by paying \$1,000 or \$2,000 down and entering into contract to pay the balance, expecting to sell out at a profit before the contract matured. For several years the game was booming, but common sense warns that that sort of performance must come to an end. It has about one "run" for each generation, and when it comes to an end a fierce demand always rises for a change in the banking or monetary system which is held to have been responsible for the trouble. All the people who have gotten into debt are sure that if credit had been on tap without limit, the boom would have kept on forever.

#### **International Relations.**

The international situation continues to overshadow domestic trade and industry. There are no signs yet of quickening trade in Europe, Asia or South America. Stagnation is reported from all quarters, with inability to sell their own products given as the explanation for inability to make purchases. It would be the most ignorant interpretation of this state of affairs, however, to attribute it to overproduction, for it is manifestly due to a disorganization of the world's industrial system, resulting in general under-consumption.

The trade of the world has been declining. The shipping business is much depressed, suffering not only from having many ships out of commission but from the reduction of charges which naturally follows. As of February 1, 1921, the United States Shipping Board had 1,677 ships under its control, of which 978 were in active operation. At the peak of activity 170 private companies were operating ships chartered from the Board; on February 1st the number had been reduced to 129.

Of course it was to be expected that the sales of the United States and of Great Britain, the chief exporting nations, would decline, unless the countries which have been importing on so great a scale would get themselves into position to export products in exchange. It would be impossible for either country to continue indefinitely to export on credit at the rate of 1919 and 1920. It has been a mystery to everybody how the United States could pile up a trade balance in the last two years of \$7,000,000,000, for after allowance for all the invisible offsets in the form of loans, security sales, shipping charges, tourists' expenditures, gifts and remittances of every kind, it is apparent that a large share of the goods must have been sold on credit. Throughout the two years the temporary and uncertain character of this trade has been constantly referred to. Nobody could tell how long it would last, but anybody could predict that it would not go on forever. It has not come to an end yet, but in some things, notably raw cotton and meat and dairy products, it has declined and the effects upon our domestic trade have been serious. In this country discussion is chiefly directed to expedients or policies by means of which it is hoped that we may get along by ourselves, no matter what becomes of the rest of the world, but nobody is quite satisfied that this can be accomplished with any great degree of success.

The problem of sustaining our export trade and of aiding other countries to effect payment for purchases in this country is bound to press upon us for consideration.

### Opinions of British Bankers.

The annual stockholders' meetings of British banking institutions for the election of directors and officers and a review of the year's business are commonly made the occasion for extended comments upon the general business situation. The addresses this year by responsible banking officials have dwelt freely with the European situation and are of great interest.

On account of the intimate relations of London to all of Europe and to the trade of the world, we think it well worth while to give our readers liberal extracts from these utterances, and suggest that they receive the careful reading to which on account of the eminence of the authorities they are entitled. They may be well borne in mind in considering our own relations to the international situation.

The Right Honorable R. McKenna, formerly Chancellor of the Exchequer, now Chairman of the Board of the London Joint City and Midland Bank, the largest bank in Great Britain, devoted his address largely to a discussion of the interest rate question, his position being practically that set forth in these columns from time to time, to-wit: that while loans were increasing and prices rising it was important to adopt measures for checking the inflation, but that with business declining and the danger of further inflation at this time passed, the policy should be of more liberal accommodations and lower interest rates as soon as conditions permit. Upon the general European situation, he said:

Our industrial organization has been built up on the basis of an immense international trade. Our plant is designed for mass production, our commercial houses adapted for business on the largest scale. The only condition under which 47 millions of people can live in these islands—not merely tolerably, but live at all—is that our output should be up to the highest level of our industrial capacity, and that the surplus of goods which we do not consume ourselves should be freely exchanged for the imported food and raw materials which are essential to our existence.

The economic restoration of Europe should today be our first concern. If we neglect it our whole foreign trade will contract and decay. The commerce of the world must be considered as one vast whole, and if a large section of it is severed from the rest what remains will be gravely impaired. If the broken countries of Europe are not restored, even the still solvent states will slip one by one into the general ruin.

A remedy must be found, and found quickly, but what remedy? I do not think there can be much doubt as to what Europe needs at the present time. She needs peace; not merely the peace of pacts and treaties, but peace borne of the spirit of peace, when the nations "shall beat their swords into ploughshares and their spears into pruning hooks." The governments of Europe have made peace, but they have not yet accepted the conditions of peace.

#### Chairman of Barclay's Bank.

Mr. Frederick C. Goodenough, Chairman of Barclay's Bank, one of the five leading banking institutions of Great Britain, said, in part:

There is evidence of a gradual change which is taking place in the distribution of our trade. Our favorable balance with Continental countries for the first nine months of 1919 was £202,000,000, while our unfavorable balance with other countries was £729,000,000. This position is being gradually adjusted and during the corresponding period of 1920 the favorable trade balance with Europe has been reduced by £64,000,000, while the adverse balance with other countries has been reduced by £278,000,000, so that, in the general adjustment of our debtor and creditor trade position, we are now better able to set off debts owing in one direction against debts owed from another.

Much has been done since the armistice towards the improvement of our foreign trade, and although we have not reached anything like our pre-war volume, still, not only are we today—as we always have been—a creditor and not a debtor nation (there have been some popular misapprehensions upon this point), but besides this, the existing figures of the Board of Trade returns go to show that, taking our invisible as well as our visible exports into account, this country is today exporting more than it imports.

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I feel strongly that we are now at the cross-roads so far as the outlook for industry is concerned, and that upon our choice of methods depends whether we return to prosperity via a protracted or via a short period of distress and unemployment.

The world is passing through a period of resettlement, and if we take a broad view of the situation, especially as regards assistance to distressed countries and the various complexities surrounding indemnity payments and Allied indebtedness, I see no reason why we should not quickly recover from the present stagnation. But if our outlook is to be narrow, not only will trade revival be delayed but our future will be prejudiced. We cannot afford to ignore the interdependence of nations—a more important factor now than during the period which followed the Napoleonic wars—and our aim should be the creation of what would really be a Financial League of Nations, composed of all the countries able to help. The matter is urgent, and the world cannot afford delay; our part is to show no hesitation in our readiness to take up our share of the burden.

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Unless we can get to the root of the causes which at the present time are shutting down, partially or wholly, the markets which in pre-war times took from us many millions of our output, and again restore them to normal conditions, it would seem that a recovery in the industrial position must be very slow indeed. Until the distressed countries of Europe are started upon a fresh financial basis which is fundamentally sound, their markets will continue to remain wholly or partially closed. With their unsound currencies they can neither pay nor obtain credit, and the credit schemes which have been proposed are merely palliatives to the present situation. They will act only very slowly, and, so far as we can see, they will not provide a remedy as quickly as the disease of unsound currency will drive those countries into bankruptcy.

I feel that it will fall to this country to take a lead in these matters, because we have the knowledge and experience which is not possessed by any other country, and although giving a lead involves great responsibility it also brings with it results which will benefit the whole world.

#### Is Private Enterprise Adequate?

It has been thought by some that any remedial measures had better be left to private enterprise, but that is open to this difficulty, that in many instances the risks involved are neither banking, nor insurance, nor trading risks, but they are political risks over which private enterprise can exercise no sort of control. For this reason credit cannot be forthcoming from private sources to an extent which will be adequate to do what is required, and, although a great volume of credit has already been granted to Europe since the armistice, so little progress has been achieved that it would seem that organized international action is needed before any satisfactory results can be secured.

At the root of the troubles of the distressed countries is the inability to meet expenditure out of revenue and the consequent necessity of making up the deficiency by the help of an unsound system of currency which enables paper, without a specific backing or ratio of value, to be created for the purpose of filling up the gap; if this process is to be arrested before bankruptcy supervenes international assistance is required—at all events for the smaller countries—to enable them to tide over the interval of time until they can reorganize their internal position by the adjustment of revenue and expenditure and by trade.

### Must There be General Bankruptcy?

There seems to be no other way short of a general reconstruction after bankruptcy; this would involve enormous loss of capital, followed by a long, painful and dangerous process of recovery, all of which would add to the difficulties of trade and increase the present unemployment.

If international securities were created to fill this gap some form of international control would be necessary in order that sound financial and economic principles might be insisted upon. The carrying out of such a scheme would probably involve some inflation of credit in this and other countries. Such inflation should, however, result in the re-opening of trade and is, therefore, preferable to inflation incurred as a result of trade stagnation and unemployment doles.

### The International Government Debts.

There is also the question of our own foreign debt and the debts that are owing to us by other foreign nations, and here the difficulty arises that, whereas the money we owe abroad—and it is a very large sum—is for the most part payable on demand, that which is owing to us depends for payment upon the return of those who are our debtors to a sound financial position, and this will take time. It may be that as a matter of business only it would pay us to make concessions in respect of debts owing to us by Allied Governments, provided we do not thereby prejudice our own ability to pay. We might, for instance, consider the possibility of a part cancellation of those sums lent to our Allies for the purpose of purchasing munitions in this country, while retaining their liability for those sums which in effect represent money lent to them by the United States through ourselves. Such a policy must, of course, depend upon any new agreement that may be made with regard to our debts to our Allies, but if an ordinary business man finds it to his advantage to forgive some portion of what is due to him, in order that his debtor may be put on his business legs again, we, as a nation, might find it wise to do the same with regard to the debts of our Allies. The better exchange conditions which should follow might enable a great deal of what is already owing to us on trade transactions to be paid, and this would have a tendency to remove congestion, besides giving the opportunity for fresh trade.

### Chairman of London County, Westminster and Parr's Bank.

Mr. Walter Leaf, Chairman of London County Westminster and Parr's Bank, another one of the Big Five British banks, touched upon the importance of reducing expenditures for armaments, and asked whether the allied countries were not going out of their way to assist Germany in her recovery by insisting upon her disarmament without disarming themselves. He also referred at length and emphatically to pending proposals for restricting trade by ill-advised customs tariffs. He spoke, in part, as follows:

For bankers the year has been one of incessant vigilance and great responsibility. The part which banks play in industry is, I believe, much exaggerated in popular opinion. It must always be remembered that bankers do not create wealth—it is only within very narrow limits that they can create credit.

Credit is based on production and savings which increase bank deposits, the function of banks is mainly directive. They can influence in one direction or another the employment of funds which their customers place with them, but in the amount of credit of which they can dispose they are neither creators nor free agents; they are strictly limited by their own resources.

There has been during the year a certain amount of ill-informed rumor that the banks have been restricting credits. For such complaints there is no ground. I can, I am sure, venture to say that the practice of other banks has been the same as our own. Our rule has been to give credits on the most liberal scale consistent with the proper preservation of our resources. There has been no sort of agreement or understanding among the banks that advances should be restricted or rationed; we have all endeavored to deal with the situation on the most generous lines, bearing in mind particularly the claims of our smaller customers.

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### Taxation and Disarmament.

But it cannot be denied that the pressure of taxation has reached a most serious point. Whether the E. P. D. [excess profits duty] deserves all the opprobrium that has been poured upon it is a question on which I do not here enter; the trouble is that with national expenditure upon its present basis industry, in one form or another, has to be burdened with taxes up to the breaking point, and I am not sure that any other form of raising the revenue which our wastefulness requires would lead to less complaint. We even begin to hear suggestions that a forced loan on terms which would make it a disguised levy on capital, may be the best remedy. That may be the lamentable alternative if our governors do not see their way to reduce our expenditure, more especially our expenditure on armaments. I wonder if we are not going out of our way to assist Germany's recovery at our own expense when we insist on disarmament for her while not applying it to the whole world, including ourselves. To tell the truth, I see no radical remedy for the present discontent except in world-wide disarmament; it is in the League of Nations that our best hope lies.

### Credits For Trade.

The international situation is at the root of everything that most disturbs our view. A year ago I said that all depends on our getting the current of international trade once more flowing freely; but the last 12 months have seen far too little advance in that direction. No progress has been made in setting on foot the exporting power of the enfeebled nations of the Continent; in consequence their exchanges have gone from bad to worse, and our own exports are crippled. They are driven to further issues of a discredited currency, and to the process there seems at the moment to be no end.

Our endeavors are being directed to some scheme of barter in which goods can be exchanged for goods. At the moment we are discussing what is known as the Ter Meulen scheme, under which the depressed Continental countries shall make themselves responsible for the purchases of their nationals, by the issue to them of Government bonds, under the auspices of the League of Nations, which they can give in payment for the goods they buy.

Other proposals are before us. But the ultimate guarantees for all plans is the same. It is essential that all purchases made from us by foreign countries should be balanced by equivalent exports from them to us, which will enable the respective issuing countries to provide funds for the due redemption of their obligations. It is on the maintenance of this equivalent export that all schemes hang.

### Folly of Artificial Interference with Trade.

It is to me amazing that, at the very moment when these plans are before us, we should be disturbed by rumors of further proposals to hamper the free exchange of goods on which not only these schemes, but any possible hopes of restoring our own pre-war position, are entirely dependent. The fundamental

principle of international barter, which in normal times is perhaps somewhat obscured by the smooth working of the exchanges, is that "if thou wilt not buy, neither shalt thou sell." It is most distressing to find that, at the very moment when one would have thought that this maxim was forcing itself upon the intelligence of the blindest, we should hear talk about "anti-dumping," "key industries" and the like, all of which is simply a demand for hampering or even prohibiting the imports which are needed to pay for the goods of which our warehouses are at the moment full to overflowing, and for which a large part of Europe is hungering. Plainly, if legislation to this effect is passed, it will put an effective stop to the Ter Meulen scheme, or to any modification of it. It will effectually bar any prospect of an improvement in the position of the Continental exchanges. It will, moreover, by keeping up costs at home place a most powerful means of competition in all neutral countries in the hands of nations whose exchanges are at a discount, and will probably be immediately effective in crushing our foreign trade, which is surely burdened enough as it is.

It is not merely my own opinion which I am expressing. Only a few months ago there sat in Brussels a conference of all the best financial intellects of Europe. They drew up a series of resolutions showing the principles on which alone the economical restoration of the world was possible. With all their resolutions I believe that the best opinion everywhere is in agreement. The economic depression of the Continent is largely due to the artificial barriers which the new States are setting up between themselves. This we are all agreed is wrong. This is the resolution which the conference passed unanimously:

"The conference recommends that, within such limits and such time as may appear possible, each country should aim at the progressive restoration of that freedom of commerce which prevailed before the war, including the withdrawal of artificial restrictions on and discriminations of price against external trade."

#### Adherence to Economic Laws.

It is recognized that one of the chief causes of the lamentable plight of Austria today is the action of the nations into which the Austrian Empire has split up in closing by tariffs the free interchange of their products. It has been for us hitherto to show other nations the better way. The prospect that we may follow their example and interfere with the free exchange of goods is one that fills me with the gravest apprehension. We have surely had enough of Government interference with trade that in this critical moment such intervention should be extended to the most vital and most delicate part of our commerce seems to me only too likely to lead to disaster.

Ladies and gentlemen, I do not wish to sit down with the word "disaster" on my lips; I do not believe that there is any need for disaster. I am convinced that, if our difficulties are allowed to work themselves out on natural lines, we can see our way through them all. But one great lesson of the war is that economic laws will have their way in the end, and that Government attempts at interference with them, if they postpone the inevitable result, only aggravate it. We have had an outcry, which has largely attained its end, for the removal of all political interference with trade and industry. Do not let us, at the moment when the removal of the last of these mischievous interventions is in sight, recur to the bad old plan. Let us be farsighted enough to resolve that we will have no more attempts to bolster up unsound positions, and set our faces boldly to the task of working out our own salvation.

#### The Settlement With Germany.

The sum fixed for Germany to pay, 226,000,000,000 gold marks, or about \$54,000,000,000, in forty-two years, would not have seemed nearly so large if stated in terms of present worth, but it is useless to calculate the pres-

ent worth of a sum which by no possibility can be paid in the present. Few raise any question about the sum named except as to the ability of Germany to pay it. The war was a hideous crime for which the German government was directly responsible, and the depredations in large part were without reason even from the standpoint of military necessity. The average payment per annum over the period is about \$1,300,000,000, which is a heavy but not inconceivable burden for the productive powers of Germany to bear, assuming the German people to be united in a common purpose to sacrifice and pay. In the last five years the United States actually has exported a surplus of goods amounting to approximately \$3,000,000,000 per year. Of course the level of prices is an important factor in any such undertaking. The temper and attitude of the body of a people, their resolution to accomplish a purpose and to make sacrifices for it, is an inevitable factor, and does not relate merely to the attitude they may hold toward indemnity payments. Whatever the cause may be, if people are discontented with their lot and feel that they are inadequately compensated for their labors, their efficiency is likely to be affected. It is a well-known fact that the efficiency of labor in the United States is diminished by a prevalent feeling that it is not as well paid as it should be. Such feeling is beyond control by any authority, and it is impossible to say to what extent the efficiency of a people may be thus impaired, when sacrifices are required which affect wage rates and the standard of living.

#### The Exchange Problem.

The most serious problem connected with these reparation payments, however, is that of the means by which they shall be accomplished. Most people fail to take account of the difficulties which attend upon great payments to be made in another country and a different money. It will be one thing for the German government to raise by taxation and collect into its Treasury the sums required, and another thing to pay them over to the Treasuries of foreign countries. People are so accustomed to the simplicity of exchange operations in ordinary business that they do not appreciate that such operations are based at last upon trade in commodities. They do not readily grasp the fact that these payments cannot be made in German currency or in gold, but require the exportation of goods. Germany must have a surplus of exports over imports equal to the amount of the required payments, and this means that Germany must be a much larger factor in international trade than ever in the past.

### Effects Upon World Trade.

Obviously this introduces a new element into the situation. Not only must Germany be willing to make the goods and devote them to the discharge of this obligation, but she must find a market for them. She must find countries willing to buy them, and this does not promise to be an easy task. Mr. Lloyd-George frankly says that the chief difficulty the allies encountered in coming to an agreement was that none of them wanted to admit German goods into their own market in competition with their own products. France has not been willing that Germany should undertake reconstruction work in the devastated districts, supplying labor and materials. It is said that the French residents were unwilling that this should be done. They want Germany to pay, but she can pay only in work, and for whom shall the work be done?

It is evident that this situation is bound to be an important factor in world trade. Germany must create a large balance of trade in her favor, and turn that balance over to France, which straightway raises the question, what countries are likely to buy of Germany on this scale?

### Effects in the United States.

Newspaper comment on the other side indicates an expectation that after the terms are settled and bonds have been issued by Germany for the agreed amount, they may be sold in the United States, or German goods sold in this country to accomplish the payments. But it must be remembered that this country never has looked kindly upon heavy imports. If Europe has the latest news from Washington it knows that work has been under way for some weeks upon a new protective tariff which is understood to be one of the first things on the program of the new administration. If we are not willing to admit foreign goods to even pay the interest on the debts already due us from Europe, what is the probability that we will accept goods from Germany in payment of the reparation obligations? This does not signify deliberate refusal to co-operate for the assistance of France, but only the maintenance of a traditional policy. And if the goods cannot be sold in the United States, what is the prospect for selling them elsewhere? Will the buyers of importing countries turn from the markets of the United States and Great Britain to the markets of Germany for the purpose of aiding the latter to meet these obligations, and will the countries ambitious to increase their own exports modify their efforts in order to favor this arrangement? We ask only for the purpose of bringing out some of the difficulties of the situation. It is a situation which does not involve France and Germany alone, but all coun-

tries, and while all would like to see France receive the reparation payments, they are not unlike France in wanting Germany to make them without interfering with their trade.

### Comments in Other Countries.

The circular letter of Samuel Montague & Co., London, of recent date, touches on this subject of reparation payments to Great Britain with this comment:

What will be the effect on this country, and especially on individual manufacturers, if we receive large quantities of goods free? This is another circumstance brought about by the war for which we have no precedent; old-time economics pre-suppose that goods imported will be paid for by goods exported. It will be of interest to know who will fix the price of the German exports, who will pay the 12 per cent tax and to whom the goods will be consigned in this country, and who will dispose of them. It looks as though there will be more work for a "Disposals Board."

Germany's neighbors who have any manufacturing industries are all showing concern on the subject. The Netherlands Association of Manufacturers have recently passed resolutions, addressed to the Minister of the Colonies, reading in part as follows:

We observe with great disquietude the business done by Germans in our colonies, and it is especially the metal branches which are offering their goods at very low prices. The danger is so great that our own manufacturers are driven from the field and our business will suffer irreparable injury unless quick measures of relief are taken. We apprehend a permanent shrinking of our export industries which will react unfavorably on our domestic situation.

These quotations are enough to indicate the real problem involved in the reparation payments. They make a problem in international trade because they are an abnormal factor in it, not a natural development. The French indemnity of 1870-72 of \$1,000,000,000 was paid in the main through sales by the French people of foreign securities which they had owned. These securities were disposed of in foreign markets and the credits turned over to Germany and either collected gradually or invested abroad. To the extent that Germany owns property abroad, or property like ships that can be transferred, the problem is simplified, but its possessions of this class are nowhere near enough to cover the bill.

### The Emergency Tariff.

At this writing the emergency tariff bill has been agreed upon in conference. It probably will be passed and vetoed by President Wilson, but the readiness of the Congress to pass it indicates that an act along similar lines will become a law at an early date.

It is true that a protective tariff is not a new venture in this country. We have had one during most of the development period of our history, but the conditions are different from what they have been heretofore. The plat-

form of the Republican party in the last campaign distinctly recognized this fact and indicated some modification of party policy.

The industries of the country have become widely diversified, and in many lines have developed to such an extent that they are playing an important part in foreign markets, and are in a degree dependent upon such markets. The great home market for raw materials and foodstuffs, which the early advocates of protection had in their minds, has been created, and for many raw materials we are now dependent upon foreign supplies and probably always will be hereafter. It is not likely that the home production of either hides or wool will ever be a larger proportion of our consumption that it is now, no matter what import duties are levied. If this is true we have reached the point where duties upon these commodities, instead of developing home production, are simply taxes levied upon necessities of common consumption. Moreover they are burdensome to industries like tanning and shoe making which receive raw materials from abroad and export finished products.

\* They are burdensome in that they increase the cost of living for wage-earners and compel wage increases which are merely compensatory, while placing the industries that are striving to do business abroad on a higher level of costs than their foreign competitors. Moreover the countries which sell hides and wool to us buy manufactures from us, and have practically no means of payment but in such products. They are sensitive about legislation affecting their products. As good merchants it behooves us to give consideration to the feelings and also the means of payment of our customers, and to manifest a friendly and reciprocal spirit toward them. They cannot trade with us without our co-operation. Trade does not mean simply selling; it means an exchange of products.

#### **An Abnormal Fear of Imports.**

Some of our people seem to have an abnormal fear of imports. They fail to see that imports are a necessary accompaniment of exports, and think that other countries are about to swamp us with their products when as a matter of fact those peoples are at their wit's end to find means of making payment for the goods they are buying here. We have heard much in recent months about the flood of Canadian wheat sweeping over our borders. The movement of wheat between this country and Canada for the full year 1920 consisted of 14,311,672 bushels from this country to Canada and 34,954,304 from Canada to this country.

This was the total movement, with a crop and carry-over in this country of over 900,000,000 bushels.

Moreover, throughout the year the movement from both countries to Europe was vastly greater than between them, showing that prices here were on the European market basis. Our own exports of wheat in the last six months have exceeded 200,000,000 bushels, sold in open competition with wheat from everywhere. Of course the Canadian crop has been a factor in the market. We read daily of the influence of Argentine and Australian wheat not only in foreign markets but in our own markets, although not a bushel of it comes here. What reason then is there for thinking that the importations from Canada had any greater effect than they would have had if they had gone to Liverpool? They have been a novelty, more noticeable and therefore more talked about.

There is a milling demand for the different grades of wheat for mixing purposes. The Spring wheat of the Northwestern States in 1920 was not of the best quality, and Canadian wheat has been used in connection with it. That is not to the disadvantage of our wheat growers, as it helps sustain the reputation of American flour.

#### **Large and Small Considerations.**

While considering the controversy over wheat we should not lose sight of the fact that our total of all exports to Canada last year was valued at \$971,000,000, while Canadian exports to the United States were valued at \$611,000,000. Cannot we afford to let that trade alone?

There are people alarmed about the butter industry of this country, which has an aggregate product of about 1,500,000,000 pounds per annum, because we imported in 1920 about 37,000,000 pounds. It looks to them as though Denmark, with a total production of about 230,000,000 pounds might drive us off the map. The truth is that the fluctuations of rainfall in this country have much more effect on the butter supply than all the importations. Our exports of all kinds to Denmark in 1920 were valued at \$85,074,449, while the total exports of Denmark to the United States were valued at \$20,573,746. Why not also let that trade alone?

In the case of Argentina our imports and exports were more nearly in balance, the former amounting to \$207,776,868 and the latter to \$213,725,984. We produced last year about 3,250,000,000 bushels of corn and imported all told 7,744,000 bushels of which 6,988,000 came from Argentina. The latter amount does not exceed the production of single counties in Illinois and Iowa. We bring in considerable flax-seed from Argentina, which makes linseed oil, and this is a factor in building operations, now hindered by high costs. Flax has been

grown in this country mainly as a first crop on new lands, and therefore is a diminishing product.

In trade with these countries and many others we send out goods representing higher expenditures for labor than those we receive—manufactures against natural products, and often natural products of which we have a diminishing supply. In the case of cotton goods, shoes and other things that might be named, the exports represent agricultural products plus the labor of American wage-earners, who are consumers of agricultural products. It is probable that all the agricultural products imported into this country from Canada are not sufficient to feed the wage-earners in our factories who make the goods we sell in Canada. It is a superficial view which sees the farmer's interest only as affected by imports. He is interested in the general prosperity of the country.

#### **Competition of Asia.**

A publication of some prominence has given currency to the rather hectic declaration that the farmers of the United States would be surely reduced to a peon class unless protection was given against the products of Asia. The author of this statement seemed to be under the impression that the hundreds of millions of inhabitants of Asia had learned how to do without food themselves and had just discovered where they might dump it. And apparently he did not know that the average value per acre of all the farming lands in the United States doubled in the 10 years from 1900 to 1910 and then doubled again from 1910 to 1920, thus quadrupling in 20 years, although Asia was there all of the time.

There is a loss of all sense of proportion and of the saving sense of humor in these panicky symptoms, and some danger of appearing ridiculous. As a matter of fact the real farmers know better, as is evidenced by the fact that farming lands are even now changing hands at prices close to the top. The farmers of mature years have been through such experiences before, and have not forgotten the time when they were told that agriculture was ruined forever without the free coinage of silver at 16 to 1.

#### **A Fair Exchange is No Robbery.**

It scarcely accords with the dignity of a country whose wealth is so great in comparison, and which has suffered relatively so little from a world calamity, to be so disturbed over some of the incidental effects of the world-wide disorganization, and so regardless of how its efforts to escape them may increase the general disorder. The world, admittedly, is full of selfishness, and we may be allowed to have our share, but it ought at least to be an

intelligent selfishness. This is a world situation and we have more to gain by aiding the restoration of order than by increasing the confusion.

We ought to remember when we hear the alarming stories of impending imports that other peoples are merely trying to trade with us, to give something of their production for something of our production, or to pay us for something they have already had. The low exchange rates are given as a reason for imposing higher duties, but to a great extent they are due to a state of trade that is one-sided in our favor. The exchange rates are abnormal largely because the state of trade is abnormal, and we may doubt the wisdom of taking steps to keep the state of trade abnormal. The whole situation will right itself with a great deal more certainty if let alone than if the law-making authorities of all countries muddle with it. If the balance of trade turns against us, exchange rates will turn against other countries under the same influences which now set them against us.

#### **Silver.**

The course of silver since the decline began last Spring has been a great disappointment to producers. They had counted upon the Pittman act as assuring at least \$1 per ounce for the metal until the United States government had replaced the silver dollars melted and exported under that act. It seemed reasonable to expect that with the entire production of the United States taken off the market, the remainder of the world's production would command at least the price fixed for the American product. The outpouring of old silver coins from the countries of Europe where paper has taken the place of all metallic currency, has been the most unexpected development, but the unprecedented reversal of the trade relations between India and the rest of the world has been another. It has been customary for India to have a trade balance in her favor on merchandise account, which was settled in silver. In 1920 its exports fell off to such an extent that the balance turned over, and India actually exported both silver and gold.

The United States Government under the Pittman act is required to buy all the silver of domestic production that may be offered at \$1 per ounce until the entire amount, about 208,000 ounces, sold under the Pittman act is replaced. About 37,000,000 ounces have been purchased to this time and as this bullion is a dead asset until converted into dollar pieces, coinage has been recently commenced. Meanwhile the price in New York of silver produced outside of the United States is about 55 cents per ounce. That is all that is paid for the metal by the manufacturers of silver ware.

The whole story of silver is a ludicrous illustration of the management of governmental affairs. The silver hoard in the Treasury was originally bought in an effort to maintain a double standard of value, which proved a failure. The value of the amount of silver contained in a silver dollar declined to 50 cents and lower, but the dollar pieces and paper certificates representing them were held at par by the guarantees of the Government. The certificates would have circulated at par on these guarantees without any silver pieces behind them.

Comparatively few silver dollars were in circulation, the public preferring the certificates. When this country entered the war, there was pressing need for silver with which to pay the immense trade balance owing to India both by Great Britain and the United States. Silver is the common currency of India; the people there are not familiar with paper money and distrust it. The only stock of silver within reach consisted of the silver dollars in the United States Treasury, which might be released by substituting Federal Reserve notes for silver certificates in circulation. In order to do this, however, it was necessary to obtain the authority of Congress, and to get it promptly. The price of silver was rapidly advancing and the silver producers of this country were averse to releasing the Treasury hoard, which threatened to not only check the advance but perhaps break the market. Opposition to the proposal developed, and a compromise was effected by which the Treasury was directed to re-purchase the amount sold, at \$1 per ounce, the selling price being \$1.01½ cents, the 1½ cents being intended to cover incidental expenses. With this provision agreed to the opposition was withdrawn and the bill went through without opposition.

Of course the re-purchase of this silver and re-coining of the dollar pieces is an absurdity, a repetition with full knowledge of a mistake made when the country was floundering with the silver question. But the Pittman act would have to be repealed to give the Secretary of the Treasury a free hand, and in view of the conditions under which the act was passed it is probable that many members of Congress who voted for it do not feel at liberty to favor repeal.

There is another development which makes the situation more serious to the silver producers. The high price of silver caused several countries to alter their coinage laws, substituting nickel for silver to a greater extent than formerly. Thus the silver coins of Great Britain as made in the future instead of having eleven-twelfths of their composition of silver and the remainder copper, will be only one-half silver and the remainder nickel and copper.

## **Marketing Facts.**

We referred last month to the vast amount of misinformation that is current about matters concerning which it is quite possible to obtain the facts by taking a little trouble, and particularly about the market value of farm products at different seasons of the year. Reviewing market conditions since 1913 the Wall Street Journal finds the facts as to cotton and wheat to have been as follows:

In October and November, 1913, the average price of cotton was 14.1 cents. The average for the following May and June showed no speculative profit as it was 13.3 cents. The average for the crop sales in 1914 was 14 cents, and for May and June, 1915, it showed the speculator a loss of more than 4 cents. In the same periods of 1915-16 there was a small profit, about paying warehouse charges and interest. This was larger in the season 1916-17, and there was a real profit in 1917-18, as between 27.2 cents and 31.6 cents.

But in the season 1918-19 there was a loss of the difference between 32.8 cents and 30.5 cents, to say nothing of the carrying cost. Only on the average between October and November, 1919, and May-June, 1920, would the speculator's profit have been worth the gamble in a rise of from 35.5 cents to 43.5 cents. If he bought cotton last October, "to take advantage of the farmer," he is now facing a heavy loss.

And there was nothing like a certainty for the gambler in wheat. He would have lost money between October, 1913, and June, 1914, after paying carrying charges. He would have done well in 1914-15 and have made a substantial profit in 1916-17, coming out even in 1915-16, losing money in 1917-18 and in 1918-19, and making some of it back in 1919-20. If he had bought the farmer's wheat at the average of October-November last year, he would be facing a loss sufficient to wipe out all he had made in the good years and to double the losses he had made in the bad ones.

According to business experience if there was a certainty that any of the farm staples would be worth enough more in the Spring months than Fall months to pay the cost of carrying them and a good margin, capital would flow naturally into the investment. This fact creates a strong presumption that there is no certainty of profit in the venture, and that on the average the profit is not unduly large.

## **Heavy Losses.**

A long story of industrial and mercantile losses suffered in 1920 might be made up from the reports of companies which by reason of the fact that their stocks and securities are widely held by the public are under obligations to publish the results of the year's business. Perhaps it would be well to have this information distributed in sections of the country where many people are laboring under the impression that the "big interests" brought on the fall of prices and have profited by it at the expense of farmers and small dealers.

Among the big interests the railroads always have been pre-eminent, upon the theory that they are owned in Wall Street, which of course is far from being true. Nevertheless, the railroads are generally regarded as typical

of "big interests," and so it will be well for those who are jealous of such interests to note that the decline of traffic has cost them about all that they might have gained by the advance of charges which they were allowed last summer. Senator Kellogg, of Minnesota, in a speech in the Senate a few days ago stated that the consolidated net earnings of the roads in September last amounted to 4.1 per cent upon the value of railroad property as fixed by the Interstate Commission; in October to 4.6 per cent; in November to 3.3 per cent and in December to 1.1 per cent; an average for the four months of about 3.3 per cent. He stated that the Commission and the companies both realized that it was impossible to make rates that under present conditions would yield the return contemplated by the Esch-Cummins law.

Another section of the "big interests" is included in the five leading companies of the meat packing industry, to wit: Armour, Swift, Morris, Cudahy and Wilson.

With an aggregate capital investment of \$600,000,000 and aggregate sales of about \$3,000,000,000, these companies in a consolidated statement would show no net earnings last year. Losses exceeded profits, and if the statements included the leather companies affiliated with them the showing would be much worse. The Armour Leather Company had a net loss for the year ended October 31, 1920, of \$4,313,653.

The American Cotton Oil Company, another company dealing with a product of the farms, for the year ended August 31, 1920, showed a loss of \$3,611,560, against a profit in the previous year of \$422,814.

In mentioning the packing companies we ought not to overlook the Equity Cooperative Packing Company of Fargo, North Dakota, which was promoted for the avowed purpose of keeping the profits of the packing business at home and among the farmers. Stock to the

amount of \$2,250,000 was disposed of, and about \$600,000 of the proceeds absorbed by the promoters. The company, however, got into business in time to lose, it is reported, about \$800,000 of what was left.

We referred two months ago to the heavy losses that dealers were taking upon butter in storage. The situation not only has shown no improvement but grown much worse. The bulk of the winter butter supply went into storage at about 55 cents per pound, and has been coming out all the way down to 35 cents, from which there has been a recovery of 7 or 8 cents. Eggs have gone in the same way, falling from about 70 cents to 35, from which there has been a recovery of 4 or 5 cents. Millions of dollars have been lost by dealers in butter and eggs, the mild winter being an important factor in the result. Nobody could foresee when butter and eggs were stored eight or ten months ago that cows would give milk and hens lay eggs at the rate they have kept it up all winter.

The Quaker Oats Company, which in 1919 had net profits of \$2,679,394, reports for 1920 a net loss on operations and depreciation of inventory of \$5,824,925.

The Central Leather Company, one of the big leather companies, which began the year 1912 with assets of \$146,855,102, closed the year with a net loss on operations and depreciation of \$22,428,214.

Montgomery, Ward & Co., of Chicago, one of the oldest and best known of the mail order houses, which made \$4,194,170 in 1919, sold \$101,000,000 of goods in 1920 and closed its books for the year with a net loss of \$7,855,278.

If a summary of the whole business situation could be made it would probably be found that nobody is in better position to stand the stress of adverse times than the farmer who used the profits of good years to improve his farm and pay his debts and who has followed a steady and consistent policy of diversified agriculture.

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